

NTS Charging Methodology Forum (NTSCMF) Minutes

Thursday 10 January 2019

Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield	(AN)	Storengy UK
Alsarif Satti*	(AS)	Ofgem
Andrew Pearce	(AP)	BP
Anna Shrigley*	(AS)	ENI
Bill Reed	(BR)	RWE Supply & Trading
Chris Wright	(CW r)	Exxon Mobil
Christiane Sykes*	(CS)	Shell
Colin Williams	(CWi)	National Grid
David O'Neill*	(DO)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Helen Bennett*	(HB)	Joint Office
Henk Kreuze	(HK)	Vermilion Energy
James Gudge	(JG)	National Grid
James Thompson*	(JT)	Ofgem
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamla Rhodes	(KR)	ConnocoPhillips
Kirsty Ingham	(KI)	ESB
Meha Shah	(MS)	Exxon Mobil
Niall Coyle*	(NC)	E.ON
Nick Wye	(NW)	Waters Wye
Nicky White	(NW h)	nPower
Nigel Sisman	(NS)	Sisman Energy Consultancy
Nitin Prajapati*	(NP)	Cadent
Pavanjit Dhesi*	(PD)	Interconnector UK
Penny Garner	(PG)	Joint Office
Penny Jackson*	(PJ)	nPower
Richard Fairholme	(RF)	Uniper
Sinead Obeng	(SO)	Gazprom Marketing and Trading
Smitha Coughlan*	(SCo)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Terry Burke	(TB)	Equinor

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/100119>

1. Introduction and Status Review

1.1. Approval of Minutes (04 December 2018)

The minutes from the previous meeting were approved.

1.2. Modifications with Ofgem

1.2.1. Ofgem Update: 0621

David O'Neil (DO) confirmed Ofgem's decision to reject Modification 0621 - Amendments to Gas Transmission Charging Regime, and its alternatives. He clarified that the decision had been made on compliance grounds relating to: 1. Interim contracts; 2. Transition period; and 3. Shorthaul.

DO clarified that Ofgem expects any future modification(s) to take the material in the letter into account.

DO went on to explain the next steps, these covered: Compliance with the EU Tariff Network Code (TAR NC) by end May 2019, Brexit and Planning. DO explained that if there is a Brexit deal, the industry will have to implement the TAR NC in full. However, if there is no deal the situation will be slightly different, and another Statutory Instrument is ready, so there may be a slight timing difference but ultimately compliance is still expected.

He summarised some material from the letter. The three RPMs (VWD, CWD Square root and Postage Stamp) used in the suite of modifications were all deemed to be better than the status quo, though there were some weaknesses with distance. Removal of multipliers likely to reduce incentives to overbook 'shorthaul'. Any 'shorthaul' tariff must be compliant with TAR NC and should be targeted at genuine risk of bypass of the NTS. The storage discount of 50% is deemed justified; a discount set any higher needs justification. There is no rationale for an IP discount. Ofgem has not published the impact assessment (IA) work carried in the lead up to the decision and at this time do not intend to do so. Ofgem will publish a full IA when it implements a further modification.

JCo enquired about Brexit, given the importance Government places on compliance with EU legislation, and the Brexit situation, and the timing of implementation, he challenged how realistic it would be to be compliant in time. He asked if there was some leeway.

DO acknowledged the timings associated with the process, recognising Ofgem have 2 months to consider their decision, then 2 months to consult, then a need for a further two-month Agency for the Cooperation of Energy Regulators (ACER) consultation. He confirmed that Ofgem expect the industry to be compliant as soon as possible. He recognised the challenges and timescales of being compliant.

SO enquired whether Ofgem would utilise its option under the recently approved Electricity and Gas (Powers to make subordinate legislation) (Amendment) (EU Exit) Regulations 2018 which provides powers for Government to align in selected areas after exit.

JCo asked given the need to comply, if elements could be fast tracked. DO reiterated that the industry should ensure compliance as soon as possible.

SO also enquired about the Statutory Instrument, and if there was an option for the government to allow TAR NC implementation but not in its entirety.

NW noted Ofgem's decision letter essentially critiques and identifies areas of non-compliance. Discussion of shorthaul in detail within the Workgroup (see item 3.1) highlights that in some areas the letter is open to interpretation; where it is not clear what the expectations are. Shorthaul is one of these areas. He enquired given the current status, if it would be appropriate for Ofgem to be more heavily involved, providing advice and direction where possible to assist the industry develop a compliant product. For example, looking at products and where they are deemed to be compliant. He suggested it's possible that the

Workgroup develop a product believed to be compliant, but Ofgem's interpretation of it could differ. He asked if Ofgem could commit resource to advise industry to not waste time developing modifications which could essentially be noncompliant in Ofgem's view.

DO emphasised that it is the responsibility of the Proposer, the Workgroups and UNC Panel to provide modifications which will be legally compliant. He clarified that Ofgem will support the process as far as they can, however it is unlikely this will include legal advice.

DO explained that Ofgem have not looked at aspects of what could be compliant but only considered what was presented to them. DO urged the industry to consider the critique and undertake a compliance check against the decision letter; he anticipated modifications going forward taking into account the information given in the letter should be able to be compliant. NW wished to highlight the risk to Ofgem that with varying interpretations, there is a risk that modifications could be developed with a view of it meeting compliance, however when Ofgem review them, it may have a different view. Ofgem offered to support the industry where they can within the legal parameters in which it operates.

SP explained that in the context of a focus on May 2019, system developmental work has been based on what was presented to Ofgem already, to ensure systems could be ready. He explained it would be very challenging to implement system changes for October 2019 following a decision in May 2019.

Xoserve have been working with National Grid on the systems requirements of 0621 and all of its alternatives, at risk, in case of a late decision and in order to plan for compliance.

JCx asked about the tight timescales and the support for the Joint Office. PG stressed that the Joint Office will provide the support and are prepared to undertake back to back workshops where necessary. Given the timescales PG anticipated topic- or component-based workshops in Solihull similar to last April. Additional costs will be incurred by the Joint Office. PG also pointed out as Code Administrator, the Joint Office cannot prioritise the development and assessment of one ordinary modification against another and resources need to be balanced unless there is clear direction provided to the contrary. She reassured parties there are contingencies in place to ensure appropriate support can be provided to the industry.

CW also noted National Grid's capability of allocating resources will need to be factored in. He reflected that looking back on the 0621 analysis, modelling and data provision, for any future modification National Grid would look to do something different. This is partly because of the large quantity of data provided, very little of that was used in consultation responses. In future he aims to make sure National Grid's work is focussed, relevant and useful so that any future DMR and FMR can be better than before. He noted that the onus is on Modification proposers to put analysis into modifications.

PG explained the different route options in her view were:

1. Submission of an Urgent Modification with or without the use of Workgroups within the Urgent process and
2. Submission of a standard Modification.
3. Ofgem initiate an SCR
4. Ofgem lead a modification.

She explained that scheduled face to face UNC Panel meetings were preferable (over teleconference based extraordinary panels) in dealing with controversial topics and modification proposals.

PG clarified that modifications following Urgent procedures do not normally involve workgroups, rather the modification goes straight out to consultation. This has been the case for all except one Urgent modification. Any modification seeking urgency and workgroups must clearly define what the period and purpose of workgroups would be, with a clear

objective.

HK enquired about Urgent Modification Procedures and the possibility of alternative modifications. PG explained that normally with Urgent Modifications there are no alternatives, since the period in which alternatives are submitted does not exist. Essentially, timescales are shortened, and it is Ofgem which assesses and can grant Urgent Status.

Ordinarily, alternatives can be raised up to the point at which the workgroup report is issued for panel. Alternatives raised at this late a stage normally delay the timetable of the original modification.

JCx queried whether a variation would be required. PG clarified that a variation could only come into play after consultation, since it is normally a response to new material or issues coming to light during consultation.

NS noted that time for workgroup development will jeopardise compliance and suggested a cut down modification proposal which would be compliant, but it wouldn't be palatable. This could be followed by for example a 'shorthaul' modification later.

NW emphatically disagreed saying that it would be wrong to prioritise EU compliance over a regime which is right for the GB consumer, noting this would not satisfy Ofgem's objectives.

JCo and JCx pressed Ofgem for publication of the analysis behind the numbers included in the Ofgem rejection letter for 0621. The areas of particular interest are CCGTs.

PY agreed noting the assumptions underpinning the numbers would also be essential.

JCx suggested a Freedom of Information request might be required.

RF noted that the three areas of compliance noted in the letter are the same as those identified by ACER. But he argued that there are others, notably Article 35 Historical contracts, covering top-up charges and their format. Alternative 0621 modifications had different solutions which people thought were compliant.

NW noted that Ofgem's views on the correct level of storage discount was not made entirely clear. With the potential for >50%, it was not clear if the evidence supplied was enough.

DO again reiterated the UNC Panel must explore compliance with the relevant objectives.

CW noted that one area of uncertainty is implementation dates and the effects and challenge for Xoserve in relation to systems for October 2019. Charges are supposed to be effective for Gas Year 2019/2020.

The possibility of a change in charges mid Gas Year was discussed.

DO clarified that Implementation was required as soon as possible.

A suggestion that the change in charges be combined with RIIO2 was dismissed.

GJ asked that given the potential for cliff edge scenarios in terms of changes in charges, what is Ofgem's view of what a reasonable notice period would be.

DO suggested that this would need to be reviewed.

DO noted that in terms of the postage stamp modification, qualitative analysis carried out by Ofgem was essentially summarised in the annex to the decision letter; this was included to be helpful to industry.

DO reiterated his view that Ofgem expects industry to work in a constructive way to achieve compliance with the relevant legislation as soon as possible and that UNC Panel was expected to act in an appropriate way, without vested interest.

CW believed that the Ofgem decision letter was clear in terms of expectations, in response National Grid are looking at a new modification and are in the process of drafting this. He confirmed that the focus will be on the three areas of rejection namely: interim contracts,

transition and shorthaul.

CW confirmed that Ofgem have rejected the concept of interim contracts therefore National Grid will not be proposing this element again. He also confirmed there will be no transition period, it will be a one step (single change) to a capacity charge with capacity top up charges, for existing contracts accommodated within the steps. CW also confirmed that National Grid will be looking at aspects of Modification 0662 - Revenue Recovery at Combined ASEPs.

JCx suggested that a transition could be achieved if it could be compliant.

RF enquired about the timetable. CW confirmed that National Grid are looking at the appropriate mode for raising the modification, he emphasised that National Grid want to follow due diligence and have enough time to consider; urgency is a consideration. CW envisaged a modification will be available in January. GJ enquired if Urgency was a considered option, if this would include time for Workgroup meetings. CW anticipated that Workgroup meetings would be needed.

CW noted that in terms of pricing there will be a need to look at the licence obligation, ACER and what the criteria will be for the pricing methodology.

BR wished to see the modification as soon as possible as he intended to raise a postage stamp modification.

CW explained that the emphasis is looking at implementing via the UNC process as soon as possible, following the Final Modification Report, however he envisaged an ACER consultation, which will take the process beyond May.

The Workgroup discussed potential implementation dates, the timing of Ofgem's decision and the ability for Ofgem to set an implementation date. BR asked about diary planning. RH reassured the Workgroup that contingency dates are in place around current commitments to meet the needs of the industry. The Joint Office will respond to a new modification as soon as it is submitted and will inform industry of meetings times and dates as soon as possible.

Post Meeting Update: Modification 0678, proposed by National Grid was launched on 17 January 2019 and is currently awaiting Ofgem's view on urgency and the suggested timetable (which includes 11 Workgroup dates with topics). See:

<http://www.gasgovernance.co.uk/0678>

1.3. Pre-Modification discussions

None.

2. Standard NTSCMF topics

2.1. Update on Long Term Revenue Forecasts

See item 4.0.

3. Workgroups

3.1. 0670R - Review of the charging methodology to avoid the inefficient bypass of the NTS (Report to Panel 16 May 2019)

<http://www.gasgovernance.co.uk/0670>

4. Forecasted Contracted Capacity (FCC) Update

CW gave a brief update on the collection and analysis of data. He confirmed National Grid should be able to share and discuss this shortly. He wished for the Workgroup to look at the materiality, what the numbers look like and how they work with the models. He recognised there may be a direct impact on the 0621 replacement and hoped to provide details as early as possible.

GJ asked if there were any views on short term product multipliers. GJ also asked about the factors and how these could affect behaviours. CW confirmed he is looking to incorporate the forecast of

demand from a system perspective and aspects of historical behaviours (i.e. capacity taken at a price or taken for free).

He hoped to share next month how this has all been put together, along with the logic behind it, to test the logic and obtain feedback. It was anticipated that discussions would continue within the NTSCMF forum.

CW highlighted there are concerns with over codifying the process and the need to strike a balance around the appropriate governance and ability to adapt year to year.

JCx confirmed that ACER are keen on parties being able to estimate charges in the future, and that considerations need to look at Planning and Advanced Reservation of Capacity Agreements (PARCA) reservation, commentary from Ofgem, and how to handle existing contracts.

5. Issues

None.

6. Review of Outstanding Action(s)

1201: National Grid (CH) to provide more information on a) the reasons for the increase in SO charges - in particular, to provide a breakdown of the percentage contribution of the main drivers (cyber security and shrinkage related fuel price increases) and b) to provide a view on the following years SO allowed revenue.

Update: Item deferred. **Carried Forward.**

1202: PARCA Applications - National Grid (CH) to clarify what changes are needed to UNC/other related documents and to also consider the 28-day acceptance period and when extensions to this standard period are needed.

Update: Item deferred. **Carried Forward.**

7. Any Other Business

JCx enquired about the recent Transmission Workgroup Action logged at the 08 January 2019 meeting Action 1201: National Grid NTS (CH) to investigate where the NRA final decision details can be viewed. This is in relation to final decisions taken by NRAs across Europe after ACER has given its views.

RH confirmed an action had been logged and a response will be provided in due course.

8. Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Time / Date	Venue	Workgroup Programme
10:00 Tuesday 05 February 2019	Elexon, 350 Euston Road, London NW1 3AW	Standard Workgroup Agenda
10:00 Tuesday 05 March 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Standard Workgroup Agenda
10:00 Tuesday 02 April 2019	Elexon, 350 Euston Road, London NW1 3AW	Standard Workgroup Agenda

Action Table as at 10 January 2019

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
1201	04/1218	3.0	National Grid (CH) to provide more information on a) the reasons for the increase in SO charges. In particular, to provide a breakdown of the percentage contribution of the main drivers (cyber security, shrinkage, fuel price increases) and b) to provide a view on 2019 and 2020 SO allowed revenue costs.	National Grid (CH)	Carried Forward
1202	04/1218	6.0	PARCA Applications - National Grid (CH) to clarify what changes are needed to UNC/other related documents and to also consider the 28-day acceptance period and when extensions to this standard period are needed.	National Grid (CH)	Carried Forward